Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	

To: The Commission

REPLY COMMENTS OF THE SOUTH DAKOTA TELECOMMUNICATIONS ASSOCIATION

The South Dakota Telecommunications Association[1] ("SDTA") hereby replies to various comments submitted in connection with the Commission's Notice of Inquiry and Notice of Proposed Rulemaking (referred to as the "NOI" or "NPRM").[2] In addition, SDTA submits further information (attached hereto as Exhibit 1) supporting its opposition to the radical cuts in universal service funding and other proposals contained in the NOI and NPRM. As demonstrated by this additional information, while reforms are needed to the current high cost funding and inter-carrier compensation mechanisms, the proposals in the NOI and NPRM would clearly jeopardize existing and future investments made in broadband facilities and services.

[1] The South Dakota Telecommunications Association (SDTA) membership includes all of South Dakota's rural telephone companies. The membership includes 12 companies that are rural telephone cooperatives, 5 companies that are owned by and affiliated with these cooperatives, 3 municipally owned telephone companies, 1 tribally owned telecommunications company, and 4 privately held rural telephone companies which are either locally based or which have local office facilities in the State.

[2] *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, High-Cost Universal Service Support*, Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58, Released April 21, 2010.

Accordingly, the Commission should take a more measured approach in reforming universal service and access charges.

As indicated in SDTA's initial comments filed in response to the NOI and NPRM, its member company service areas encompass approximately 62,162 square miles, or 80 percent of the state of South Dakota; the average customer density throughout the service areas of the companies is approximately 2.3 customers per square mile; and the member companies collectively serve only approximately 144,000 access lines. However, despite these challenging circumstances, South Dakota's rural incumbent local exchange carriers ("SD RLECs" or "South Dakota RLECs") have deployed extensive facilities throughout their service areas, including broadband facilities, and have offered services to all customers, in keeping with their carrier of last resort (COLR) obligations.

The SD RLECs have achieved their success in investing in facilities and deploying high speed broadband services because of a number of important factors. As noted in our earlier comments, revenues from the existing high cost funding mechanisms and the interstate access charge mechanisms and rate-of-return regulation have been key ingredients for securing necessary capital financing and for providing the financial resources for the SD RLECs investments in broadband capable infrastructure. The SD RLECs success also, in part, is the result of their long-term commitments to their communities, as locally-based, small carriers located in the communities where they serve.

As demonstrated by numerous commenting parties, the Commission's proposals in the NOI and NPRM, actions requiring rate-of return carriers to adopt incentive regulation, capping high-cost support at 2010 levels, freezing interstate common line support ("ICLS"), and eliminating interstate access support, would have the effect of hindering broadband by eliminating the very elements which have been instrumental in achieving the level of broadband deployment that already exist in many SD RLEC service areas. Thus, rather than preserving and advancing the state of broadband networks and service in rural carrier service areas, the Commission's proposals would have the opposite effect, threatening the sustainability of current networks and services and hindering ongoing efforts to upgrade broadband services and meet rural consumer needs.

The SD RLECs rely heavily on federal universal service and rate-of-return type cost recovery mechanisms to fund network upgrades and build-outs. This is clearly shown by the information set forth in Exhibit 1 attached hereto, which offers a breakdown of the various revenues received today by SD RLECs. As shown in Exhibit 1, in 2009, the SD RLECs received, on average, approximately 24 percent of total revenues from federal USF; 24 percent of total revenues from interstate switched access; and 9 percent of total revenues from intrastate switched access. The interstate and intrastate special access categories account for another 9 percent of SD RLEC revenues. In comparison, the other sources of revenue reflected in the Exhibit are relatively small. It is evident that existing high cost support amounts and amounts received from per minute inter-carrier compensation by the SD RLECs are very substantial and that other non-regulated revenue sources received by the carriers are not nearly at the levels necessary to offset the significant losses which seem preordained for rate-of-return carriers under the FCC's NOI and NPRM. Moreover, the average local service rates of the SD RLECs, also noted in the Exhibit, are currently reasonably comparable to the basic local service rates charged by Quest Communications in its more urban exchanges in South Dakota. The companies are not in a position to raise their local exchange rates substantially without jeopardizing the continued availability of even basic telecommunications services to residential subscribers residing in their high cost areas. Further, these rates could not be raised to the extent necessary to replace the contemplated reductions in federal universal service and access revenues and still meet the requirement of 47 U.S.C. § 254(b)(3).

The comments of many parties participating in this proceeding show that the Commission's proposals would severely reduce universal service support for rural ILECs and, thus, negatively impact their operations and customers. The Joint Comments[3] filed by NECA, NTCA, OPASTCO, WTA and the Rural Alliance, and concurred in by 38 other associations representing rate-of-return regulated LECs (the Associations) indicated that if the Commission's broadband model were used to replace existing high-cost support mechanisms, current total RLEC funding would be reduced by as much as 90 percent.

The Associations also provided with their comments an analysis demonstrating that freezing ICLS on a per-line basis would cause free cash flow from regulated services to turn negative for the average RLEC by 2015; average free cash flows would be negative $49 per line per month by 2020 for approximately 620 companies; and 86 percent of these study areas would have negative regulated free cash flow by 2020 as a result of this proposal alone.[4] Revenue disruptions at these levels would, without question, stand in the way of future broadband deployments by the SD RLECs and would seriously threaten the continued sustainability of existing broadband facilities and services. The Commission previously refused to take similar action, given the particular concerns of rate-of-return carriers and sensitivity to the revenue

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[3] *Joint Comments of the National Exchange Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; and the Rural Alliance, with Concurring Associations*, WC Dockets 10-90, 05-337;, GN Docket 09-51; filed July 12, 2010.
[4] *Id* at 40.

disruption that would result.[5] Accordingly, SDTA urges the Commission not to convert ICLS to a frozen amount per line, as proposed.[6]

Further, as indicated in the earlier SDTA comments and those of the Associations, if the SD RLECs, as a result of the reforms under consideration, suffer reductions in USF support or in other major sources of revenue, their ability to obtain new loans or repay current loans will be at risk. Already, the Rural Telephone Finance Cooperative, a well known RLEC lender, has signaled its reluctance to continue RTFC financing in the face of drastic cuts to RLEC interstate access charge recovery.[7] And, according to the Associations, uncertainty caused by the NOI and NPRM has caused funding for broadband investment to dry up, particularly in rural areas.

Thus, it is clear that the proposals in the NOI and NPRM will jeopardize existing and future investments made in broadband facilities and services. Therefore, SDTA urges the Commission to reject these proposals. Rather, the Commission should look to adopting the more targeted and less drastic universal service and intercarrier compensation reforms suggested by the Associations and those outlined in the earlier SDTA comments.

Conclusion

SDTA has shown in its comments and reply comments that high cost funding mechanisms, the interstate access charge mechanisms, and rate-of-return regulation have been key ingredients to the successful deployment of broadband facilities and services in rural areas. Further, SDTA has demonstrated that the Commission's proposals would significantly reduce the SD RLECs revenues, which would jeopardize existing and future investments made in

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[5] *In the matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service; Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation; Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, 16 FCC Rcd 19613, 19668 at ¶130-131 (November 8, 2001)

[6] NOI at ¶55.

[7] *See Letter from Lawrence Zawalick, Vice President, Rural Telephone Finance Cooperative, to Kevin Martin et al., Commissioners, FCC*, CC Dockets 01-92; 96-45 (filed October 27, 2008)

broadband facilities and services. Accordingly, SDTA urges the Commission to reject the proposals contained in the NOI and NPRM.

Respectfully submitted,

THE SOUTH DAKOTA TELECOMMUNICATIONS ASSOCIATION

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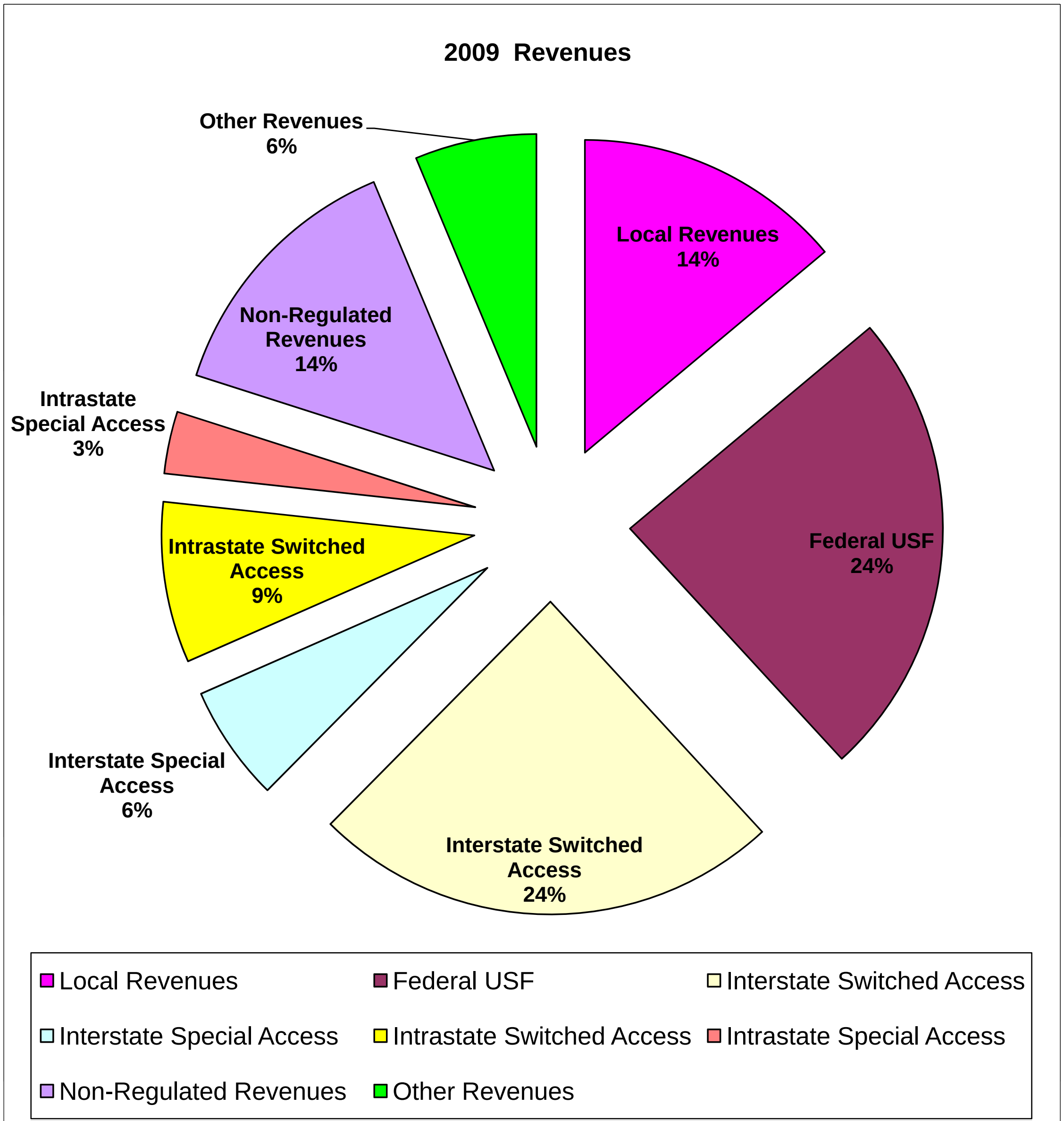
Exhibit 1



- "Interstate Special Access" includes amounts attributed to DSL tariff charges which are paid by affiliated or non-affiliated Internet Service Providers (ISPs) or expensed through non-regulated accounts by the ILEC.
- "Non-Regulated Revenues" include retail broadband service revenue generated by the ILEC or the affiliated ISP entities.
- "Interstate Switched Access" is equal to the total Interstate Access (NECA or otherwise) minus the billed/collected "Interstate Special Access".
- Revenue percentages shown calculated based on 86% of SDTA member company access lines.

Revenue Category	Average For SDTA Members Per Month
2009 Total Interstate SWA /Access Lines	**$38.54**

Note: Represents 95% of SDTA membership access lines. (SWA = Switched Access)

2009 Total Intrastate SWA /Access Lines	**$13.23**

Note: Represents 95% of SDTA membership access lines. (SWA = Switched Access)

2009 Total USF/Access Lines	**$38.15**

Note: Represents 100% of SDTA membership access lines

2009 AVG Monthly Residential Rate	**$21.14**

Note: Represents 83% of SDTA membership access lines. Includes the Residential Subcriber Line Charge

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 11th day of August, 2010, a copy of the **Reply Comments of the South Dakota Telecommunications Association** was served via electronic mail or by U.S. Mail, postage prepaid, as indicated below, to the following:

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